



PAT QUINN
Governor

MICHAEL T. McRAITH
Director

Illinois Department of Insurance

NEWS

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CONTACTS:

Anjali Julka (312) 814-0093

Louis G. Pukelis (312) 814-0778

Illinois Department of Insurance Highlights New Viatical Settlement Law to Protect Illinois Consumers from Fraud

New law bans stranger-originated life insurance (STOLI) transactions as of July 1, 2010

CHICAGO – The Illinois Department of Insurance is highlighting a new law that will protect Illinois consumers who enter into viatical settlements and prohibit dangerous stranger-originated life insurance (STOLI) transactions.

Governor Pat Quinn on Monday signed Senate Bill 2091 to increase disclosure and supervision requirements for viatical settlements and to protect senior citizens from deceptive and unlawful STOLI transactions. Viatical settlements involve the sale of an existing life insurance policy for a cash payment that is less than the full amount of the death benefit in the life insurance policy. Once premised upon fatal illnesses like AIDS, transactions involving viatical or life settlements have grown into an unregulated hedge fund industry of \$50 billion or more nationally. With the aging baby boomer population, the industry is expected to grow exponentially in the coming years.

STOLI transactions involve a third party paying a life insurance premium on behalf of a senior. The third party then sells the policy on a secondary market to other investors who hope that the senior dies rather than lives. In addition to this repugnant practice as a matter of public policy, such transactions can have devastating tax and other financial consequences for the senior.

“A viatical settlement can be an important financial tool for a well-informed consumer facing challenging circumstances,” said Michael T. McRaith, Director of the Illinois Department of Insurance, who testified in March before the U.S. Special Senate Committee on Aging in support of strong regulation of the life settlement industry. “This new law will protect consumers by imposing aggressive disclosure obligations, supervision requirements, and professional licensing and ethics standards for viatical transaction participants. While allowing legitimate estate-planning practices, the law protects our seniors as they deserve.”

Senate Bill 2091 was sponsored by Senator William R. Haine (D-Alton) and Representative Frank J. Mautino (D-Spring Valley).

“I am very pleased that the Governor signed Senate Bill 2091,” said Senator Haine. “This bill, which was negotiated for three years, results in a good regulatory environment that will protect seniors from abusive STOLI transactions while protecting legitimate transactions in the life insurance and life settlement industries.”

“I commend Governor Quinn and Director McRaith for creating a law to protect Illinois consumers – especially seniors – from those that would take advantage of them financially and for creating a regulatory structure that will allow for legitimate use of life settlements,” said Representative Mautino, the House sponsor of the bill.

More Information

Visit the Illinois Department of Insurance Web site at <http://insurance.illinois.gov> or call toll-free at (866) 445-5364.

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